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Terms of Reference (ToR)

For AML/CFT Risk Assessment of SKBBL

Sana Kisan Bikas Laghubitta Bittiyasanstha Ltd. (SKBBL)
January, 2025

1. INTRODUCTION

Sana Kisan Bikas Laghubitta Bittiyasanstha Ltd. (SKBBL)- In English Small Farmer Development Microfinance Financial Institution was established on July 6, 2001. It is registered under the company act and received license from Nepal Rastra Bank (Central Bank of Nepal) to operate as national level wholesale lending microfinance institution. Its primary role is to provide wholesale credit and technical support to partner institutions, including Small Farmers Agriculture Cooperatives Ltd. (SFACLs), cooperatives, and Microfinance Institutions (MFIs).

The SKBBL holds conviction that poverty can be alleviated by building strong, sustainable, locally owned, and managed institutions rather than relying on conventional microfinance practices. It has adopted innovative approach to expand microfinance services to underserved and unserved areas, including hills and mountains; targeting women, Dalits, Madhesis, Janajatis, indigenous groups and other disadvantaged communities. It has been implementing microfinance and social development services through partner institutions to help alleviate poverty. Its services include training and capacity building for partner institutions, wholesale credit, livestock insurance, agricultural training, financial literacy, marketing support, community development, and improving small-scale infrastructure. As of July 2024, SKBBL serves 1,636 partner institutions across all 77 districts and 552 municipalities in Nepal through its 12 branch offices.

The loan portfolio of SKBBL has grown from Rs 1.12 billion to about Rs 39 billion, from the fiscal year 2009/10 to the end of the fiscal year 2023/24. Approximately, 1.1 million households now have access to financial services through its partner cooperatives, with women making up 79% of the total members served. The combined outstanding loans of SKBBL and its partner institutions have reached NPR 153 billion, while maintaining a non-performing loan rate of below 2%.

SKBBL aims to conduct the diagnostic study to revisit its Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) policies and procedures in order to full comply with laws and regulation and mitigate the risks.

2. OBJECTIVES OF THE ASSIGNMENT:

AML-CFT frameworks are comprehensive sets of policies, procedures, and laws designed to prevent and detect financial crimes such as money laundering and terrorism financing.

The overall objectives this assignment is to review AML-CFT and sanctions program of SKBBL, determine whether the SKBBL's AML-CFT sanctions policy, procedures programs are robust and are being effectively implemented and identify gap.

SKBBL is seeking the services of an independent experienced Consultant to undertake an independent gap analysis of the current AML/CFT policies and procedures against relevant laws, regulations, and standards, develop and update AML-CFT policies, including risk-based approaches and customer due diligence procedures, and design and implement a risk assessment framework including methodologies to identify and mitigate AML-CFT risks.

3. SCOPE OF THE ASSIGNMENT :

The scope of the study of the assignment includes but are not limited to:

- a. Review of organizational structure, ownership, business model, customers and identify potential major inherent and residual risks of SKBBL
- b. Identify major risk factors related to operations, business and customers and assess the potential risks
- c. Analysis interlinks between business and customer and identify major inherent and residual risks
- d. Review the existing AML/CFT and sanctions program and recommend necessary changes, ensuring it is robust, up-to-date, and aligned with international best practice standards
- e. Review the existing AML/CFT and sanctions policies and procedures and ensure that the SKBBL can adequately identify associated risks and take appropriate mitigatory measures
- f. Assess the effectiveness of SKBBL's current mechanism to controls AML/CFT and ensure these controls align with the Financial Action Task Force (FATF) recommendations, as well as other relevant national, regional, and international guidelines, including those from the Joint Money Laundering Steering Group (JMLSG).
- g. Evaluate whether SKBBL's AML/CFT and sanctions policy documents, including the AML Risk Scoring Model, Compliance Charter, and Manual, are consistent with SKBBL's overall AML/CFT and sanctions Policies.
- h. Analyse SKBBL's products, services, locations, and member to determine AML/CFT and sanctions risks.
- i. Analysis Know Your Customer/Partners (KYC) mechanism and practices: Mechanism for Customer Due Diligence (CDD), conducting monitoring of transactions of customers, potentially suspicious activities and updating information of customers/ partners
- j. Conduct field visit, interact with branch staff and POs and assess their understanding of AML/CFT issue
- k. Conduct a gap analysis of the current AML/CFT policies and procedures against relevant laws, regulations, and standards.
- l. Review the current ToR, expertise and outputs generated by compliance officers and roles board/ board committee and senior management overseeing AML-CFT compliance.
- m. Assess the understanding of AML-CFT issues and risks by compliance officers, board/ board committee, and other staff and identify training need for SKBBL employees and Pos
- n. Conduct training sessions for staffs on AML/CFT awareness and compliance requirements and provide technical guidance on transaction monitoring, reporting suspicious activities, and record-keeping.
- o. Develop (i) Risk assessment framework and to identify and mitigate AML-CFT risks (ii) Audit mechanism for conducting periodic reviews to ensure compliance and effectiveness of AML-CFT frameworks (iii) Prepare an action plan to address deficiencies and compliance of AML-CFT
- p. Recommend to revise current policy, procedures, and programs including risk-based approaches and customer due diligence procedures of SKBBL for effective controls of AML/CFT related risk

4. THE METHODOLOGY OF THE STUDY

4.1. Literature Review

Consultant/s shall review national law, regulations, international practices/standards, policies, procedures of SKBBL. The literature review will include the following, among other topics.

- (i). National laws, regulations - Major provision made in national laws and regulations related to AML-CFT and implication to SKBBL
- (ii). International practices/standards to assess AML-CFT related risks and policies, procedures, recommendation and risk assessment framework of FATF to prevent the risks
- (iii). Current practices of SKBBL to assess AML-CFT related risks and mechanism to prevent the risks and compliance
- (iv). Gap identification to comply with AML-CFT
- (v). Review of policies, procedures developed and apply by SKBBL and its partner institution

4.2. Interaction with stakeholders

- (i). Interaction with expert in the field of AML-CFT and collect information about national and international best practices
- (ii). Interaction with top management of SKBBL and collect data related to AML-CFT
- (iii). Meeting and interaction with top management of SKBBL: Interaction with top management of SKBBL and collect information and rapid assessment of institutional risks based on factors like customer type, geographic location, transaction type, automation, MIS, staff competency, resource allocation for risk mitigation and products/services and delivery mechanism.
- (iv). Interaction and collect information on mechanism adopted by SKBBL and its Partner Organizations (Pos) on Suspicious Transaction Reporting (STR): Mechanism for identifying and reporting unusual or inconsistent transactions of customer's, assign authorities, Financial Intelligence Unit (FIU) for STR.
- (v). Interact and collect information on sanctions screening: Screening customers and transactions against lists issued by international organizations (e.g. Convention Against Corruption) and regulator (NRB and others)
- (vi). Field visit and interactions with branch staff of SKBBL and board and staff of POs
- (vii) Interaction with other stakeholders

4.3. Development of methodology of the study

Consultant/s shall develop data collection methodology, questionnaire/ check list for Focus Group Discussions (FGDs), data collection plan, selection of respondent/sampling, field visit plan for assessing need of SKBBL to comply with AML/CFT.

5. DELIVERABLES

The consultant is expected to deliver

1. Inception report
2. Questionnaire/ interview scheduled to assess the effectiveness of AML-CFT frameworks of SKBBL
3. Risk Assessment framework and methodology
4. Audit mechanism and tool to audit the compliance of AML-CFT
5. Revised AML/CFT policy documents
6. Comprehensive gap analysis assessment report with actionable recommendations
7. Training materials and session reports or the training provided to SKBBL staff.
8. Recommend training sessions Pos in order to address identified capacity gaps related to AML-CFT

6. QUALIFICATIONS AND SKILLS AND SPECIFIC PROFESSIONAL EXPERIENCE:

- a. An Advanced University degree
- b. Demonstrated expertise in the areas of AML-CFT and Sanctions practices and assessing associated risks.
- c. Experience in similar tasks, specifically within the Bank & financial sector.
- d. Depth knowledge of policies and procedures against relevant laws, regulations, governing the AML/CFT and Sanctions compliance area.
- e. Proven ability to produce quality reports; and
- f. Excellent oral and written communication skills.